

Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 02433 01 OF 02 121915Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 DODE-00 PM-03 H-01 L-02 NSC-05

PA-01 PRS-01 SS-15 USIA-06 AGR-05 /088 W

----- 130094

R 121750Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7937

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 02433

DEPARTMENT PLEASE PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FRG 1975 BUDGET DEFICIT TO BE LARGER THAN
EXPECTED

REF: (A) BONN 17976 (1974), (B) BONN 2015

1. SUMMARY. EVEN THOUGH THE GOVERNMENT HAS NOT
RELEASED A REVISED 1975 REVENUE PROJECTION SINCE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 02433 01 OF 02 121915Z

NOVEMBER, IT CAN NOW BE SAFELY FORECAST THAT THE DEFICIT

FOR THIS YEAR WILL BE MUCH GREATER THAN ANTICIPATED IN THE LAST OFFICIAL GOVERNMENT STATEMENT ON THE SUBJECT. IN SEPTEMBER, WHEN THE BUDGET WAS FIRST PRESENTED, THE 1975 FEDERAL DEFICIT WAS PROJECTED TO REACH DM 15.6 BILLION; IN NOVEMBER THIS WAS REVISED UPWARD TO DM 23 BILLION. NOW, PRINCIPALLY BECAUSE OF THE ECONOMIC SLOWDOWN THAT HAS TAKEN PLACE AND THE GENERALLY MORE PESSIMISTIC OUTLOOK, THIS SEEMS TO BE UNDERSTATED BY AT LEAST DM 7 BILLION. THE EMBASSY THEREFORE FORECASTS THAT THE 1975 BUDGET DEFICIT WILL BE IN THE NEIGHBORHOOD OF DM 30 BILLION OR PRACTICALLY DOUBLE THE ORIGINAL FRG FORECAST. THE BUDGET DEFICIT THEN WOULD AMOUNT TO 2.8 PERCENT OF GNP AND 19 PERCENT OF THE BUDGET. END SUMMARY.

2. IT NOW SEEMS LIKELY THAT THE FEDERAL GOVERNMENT DURING 1975 WILL RUN A BUDGET DEFICIT OF ABOUT DM 7 BILLION ABOVE EARLIER ESTIMATES FOR THE FOLLOWING REASONS:

A. 1975 NOMINAL GNP WILL GROW BY 7 INSTEAD OF THE PREVIOUSLY ESTIMATED 9 PERCENT OVER 1974. THIS 2 PERCENT DROP IN GROWTH WOULD IMPLY AROUND DM 3 BILLION LESS TAX REVENUE AND THE CONSEQUENTLY HIGHER DEFICIT.

B. UNEMPLOYMENT WAS ORIGINALLY ASSUMED TO AVERAGE 2.5 PERCENT IN THE NOVEMBER FORECAST. THE REALISTS NOW LOOK FORWARD TO AN AVERAGE UNEMPLOYMENT RATE OF UP TO 4 PERCENT FOR 1975. THIS NOT ONLY REDUCES TAX REVENUES, BUT PLACES OTHER DEMANDS ON THE BUDGET. ALTHOUGH THE UNEMPLOYMENT INSURANCE SYSTEM IS BASICALLY INDEPENDENT OF THE BUDGET, THE FACT IS THAT IT IS HAVING LIQUIDITY PROBLEMS AND HAS HAD TO SEEK HELP FROM THE FEDERAL GOVERNMENT TO MAKE THE MASSIVE PAYMENTS BEING DEMANDED OF IT BY THE WORST UNEMPLOYMENT SITUATION IN FIFTEEN YEARS. AS A RESULT THE GOVERNMENT HAS COMMITTED ITSELF TO A BAILOUT FOR THE FIRST QUARTER 1975 THAT WILL INCREASE THE FEDERAL DEFICIT BY DM 3.2 BILLION. (THE BULK OF THIS HAS COME FROM THE COUNTER-CYCLICAL RESERVE, WHICH NOW CAN BE DEDUCED TO BE DOWN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 02433 01 OF 02 121915Z

TO ABOUT DM 3 BILLION.) SIMILAR FUTURE LIQUIDITY PROBLEMS IN THE UNEMPLOYMENT INSURANCE SYSTEM REQUIRING AS YET UNQUANTIFIABLE FEDERAL ASSISTANCE MUST BE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 02433 02 OF 02 121914Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 DODE-00 PM-03 H-01 L-02 NSC-05

PA-01 PRS-01 SS-15 USIA-06 AGR-05 /088 W

----- 130077

R 121750Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7938

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 02433

ANTICIPATED GIVEN THE PROBABLE PERSISTENCE OF HIGH
UNEMPLOYMENT.

C. THE BUDGET AS PRESENTLY DRAWN UP INCORPORATES
ALLOWANCE FOR A 5 PERCENT GOVERNMENT EMPLOYEES' WAGE
INCREASE, BUT THE TREND OF NEGOTIATIONS POINTS TO A
6-7 PERCENT SETTLEMENT. THIS COULD MEAN ANOTHER DM 900
MILLION WOULD HAVE TO BE ADDED TO THE DEFICIT.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 02433 02 OF 02 121914Z

D. 1975 INCOME TAX REFUND PAYMENTS PAID OUT IN 1975 WILL BE MUCH HIGHER THAN PLANNED. THIS IS DUE TO THE LARGER THAN ANTICIPATED UNEMPLOYMENT IN THE SECOND HALF OF LAST YEAR AND THE FACT THAT THE WITHHOLDING RATE ON EMPLOYEES' WAGES WHICH IS BASED ON A FULL YEAR'S EMPLOYMENT. DM 250 MILLION IS ONE ESTIMATE OF WHAT THIS COULD ADD TO THE DEFICIT.

E. THE EARLIER REVENUE PROJECTION ASSUMED A SPLIT OF THE VAT PROCEEDS THAT WOULD GIVE THE FEDERAL GOVERNMENT AN ADDITIONAL DM 5.5 BILLION. HOWEVER, THE STATES, WHOSE AGREEMENT IS REQUIRED, AS OF NOW ARE ONLY WILLING TO AGREE TO AN ADDITIONAL DM 3.6 BILLION GOING TO THE FEDERAL LEVEL. THE FEDERAL DEFICIT THUS MIGHT GROW BY ANOTHER DM 1.9 BILLION. A SIMILAR ISSUE OVER THE DIVISION OF THE PROCEEDS FROM THE INCOME TAX, WHERE THE STATES AND MUNICIPALITIES ARE SEEKING A LARGER SHARE, COULD ALSO ARISE.

3. THE FOREGOING FACTS OF AN UNDERSTATED BUDGET DEFICIT HAVE NOT GONE OVERLOOKED BY THE OPPOSITION, WHICH HAS ATTEMPTED TO SURFACE WHAT IT SEES AS A SENSITIVE ISSUE WITH POTENTIAL FOR POLITICAL EXPLOITATION. THERE IS A COMPLICATING FACTOR FOR THE GOVERNMENT IN THIS SITUATION FOUND IN ARTICLE 115 OF THE CONSTITUTION. ACCORDING TO THIS ARTICLE THE FEDERAL DEBT INCURRED IN ANY GIVEN YEAR CANNOT EXCEED THE AMOUNT CLASSIFIED AS "INVESTMENT" OUTLAYS FOR THAT YEAR, A LIMIT THAT ALREADY HAS BEEN REACHED USING THE PRESENTLY PUBLISHED BUDGET DATA. AN EXCEPTION TO THIS LIMITATION IS POSSIBLE PROVIDED THAT THE "ECONOMIC EQUILIBRIUM OF THE NATION IS DISTURBED." ALTHOUGH THE HIGH UNEMPLOYMENT RATE JUSTIFIES THE ISSUANCE OF SUCH A DECLARATION, THE GOVERNMENT IS LIKELY TO RESIST DOING SO BECAUSE OF THE POLITICAL DISADVANTAGES IT WOULD IMPOSE, PARTICULARLY IN VIEW OF THE STATE ELECTIONS SCHEDULED FOR THIS SPRING. THEREFORE, THE GOVERNMENT PROBABLY WILL STICK WITH ITS UNREALISTICALLY LOW DEFICIT FORECAST FOR AS LONG AS IT CAN.

4. THE FOREGOING SITUATION HAS OTHER RAMIFICATIONS IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 02433 02 OF 02 121914Z

THAT ANY ADDITIONAL BUDGETARY BURDENS WILL BE SHUNNED WITH VEHEMENCE. FOR 1975 THE GOVERNMENT MIGHT YET SOLVE THIS PROBLEM DUE TO THE OVER-WITHHOLDING OF INDIVIDUAL INCOME TAXES UNDER THE TAX REFORM. BUT THIS

WILL EXACERBATE THE PROBLEM FOR 1976 WHEN NO EXTRA-ORDINARILY BAD ECONOMIC SITUATION IS FORECAST THAT WOULD PERMIT GETTING AROUND ARTICLE 115'S DEBT LIMITATION, BUT WHEN THE DEFICIT TO BE FINANCED COULD WELL BE IN EXCESS OF THIS LIMITATION.

5. IN THE MEANTIME, THE GOVERNMENT HAS REPEATEDLY SAID IT HAS NO PLANS TO RAISE TAXES, WHICH COULD BE A WAY OF DEALING WITH THE PROBLEM OF THE 1976 DEFICIT. SOME SPECULATE THAT THE GOVERNMENT IS HOLDING OFF ON THIS ALSO UNTIL AFTER THE SPRING LAND ELECTIONS. THE GOVERNMENT IS VIGOROUSLY DENYING THIS AND THUS IS BOXING ITSELF INTO A SITUATION WHERE POLITICALLY SUCH TAX INCREASES BECOME EVEN MORE DIFFICULT BEING THAT MUCH CLOSER TO THE NATIONAL ELECTIONS IN 1976.
HILLENBRAND

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGET DEFICITS, BUDGET ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN02433
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750051-0462
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750251/aaaabttw.tel
Line Count: 239
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BONN 17976, 75 (197, 75 BONN 2015
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 14 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 APR 2003 by KelleyW0>; APPROVED <15 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRG 1975 BUDGET DEFICIT TO BE LARGER THAN EXPECTED
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006